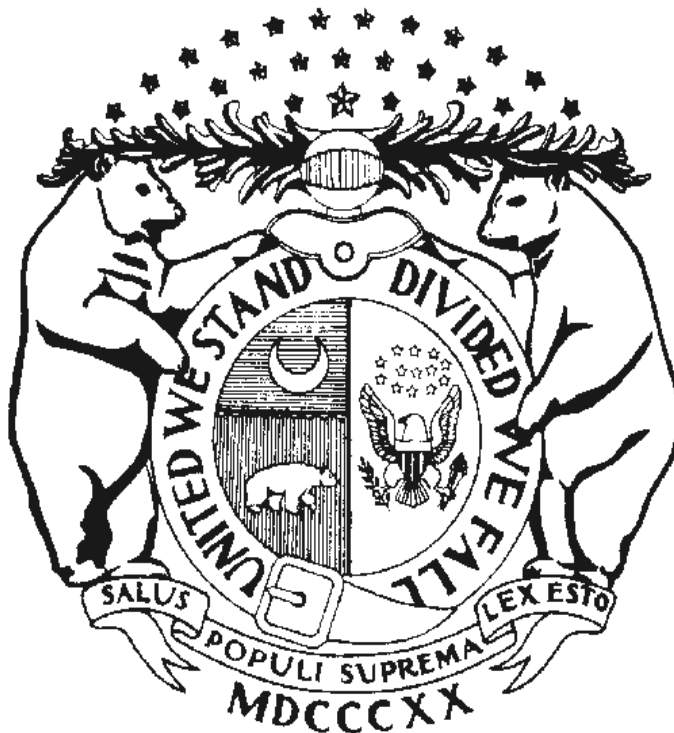


**REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
KANSAS CITY LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2002**



**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

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Kansas City, Missouri
August 2, 2004

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman of Financial Condition (EX4) Subcommittee
Southeastern Zone Secretary

Honorable Jorge Gomez, Commissioner
Wisconsin Department of Insurance
Midwestern Zone Secretary

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65102-0690

Gentlemen:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

Kansas City Life Insurance Company

hereinafter referred to as such, as Kansas City Life, or as the Company. Its administrative office is located at 3520 Broadway, Kansas City, Missouri 64111, telephone number 816-753-7299.

This examination began on October 1, 2003, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Kansas City Life was made as of December 31, 1999, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) along with the participation of an examiner from the state of Delaware, representing the Northeastern Zone.

The current full scope association financial examination covered the period from January 1, 2000, through December 31, 2002, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zone participating.

This examination was conducted concurrently with the examinations of two subsidiaries, Old American Insurance Company (Old American) and Sunset Life Insurance Company of America (Sunset Life).

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

The examiners reviewed the work of the Company's independent auditor, KPMG LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2002, through December

31, 2002. Due to differences in approach and timing of the work of the independent auditors, only minimal use was made of the work of the independent auditors.

Comments - Previous Examination

Listed below are comments, recommendations and notes of the previous examination report dated as of December 31, 1999, and the subsequent response or action taken by the Company.

Intercompany Agreements

Comment: The Company was directed to file a Distribution Agreement with Sunset Financial Services, Inc., a Management Contract with Lioness Realty Group, Inc., and a Lease Agreement with Generations Bank with the MDI as required by Section 382.195 RSMo (Transactions Within a Holding Company System).

Company's Response: The Company did not provide a formal response to this comment.

Current Findings: The Company filed the aforementioned agreements as directed.

Comment: The Company was directed to file a Master Service Agreement with Generations Bank, a subsidiary banking company with the MDI as required by Section 382.195 RSMo (Transactions Within a Holding Company System) when completed.

Company's Response: The Company did not provide a formal response to this comment.

Current Findings: The Company did not comply with the above recommendation. See the Intercompany Transactions section of this report for additional details.

Other Deposits

Comment: The Company was directed to ensure that its assets placed in a trust account for Security Benefit Life and assets pledged as collateral to the Federal Home Loan Bank are properly disclosed on Schedule E – Part 2 (Special Deposits) of the Annual Statement in the future.

Company's Response: The Company did not provide a formal response to this comment.

Current Findings: This problem continued during the years under the current examination. See the Statutory Deposits section of this report under “Other Deposits” for more explanation.

Insolvency Clause

Comment: The Company was directed to ensure that all existing and future reinsurance agreements contain insolvency clauses in compliance with Missouri Regulation 20 CSR 200-2.100(11) (Credit for Reinsurance).

Company's Response: The Company did not provide a formal response to this comment.

Current Findings: Letter agreements were added to the affected agreements to bring them in compliance with the requirements of the underlying regulation.

Reinsurance Agreements

Comment: The Company was directed to comply with the provisions of Missouri Regulation 20 CSR 200-2.300(4) (Life Reinsurance Agreements), which requires a ceding insurer to file with the MDI, any reinsurance agreement that involves the reinsurance of business prior to the effective date of the agreement. The Company's group long-term disability agreements with Hartford Life, effective August 1, 1999 and September 1, 1999 was affected by the cited regulation.

Company's Response: The Company did not submit a formal response to this comment.

Current Findings: The Company filed the agreements as directed. This examination did not uncover any additional problems in this area.

Annual Statement Schedule S

Comment: It was noted that the Company incorrectly completed Schedule S of the Annual Statement. The Company was directed to show a separate entry for each reinsurance agreement. Kansas City Life's Schedule S incorrectly combined several reinsurance agreements into one entry.

Company's Response: The Company did not provide a formal response to this comment.

Current Findings: The Company has complied with the recommendation as represented in the current Annual Statement Schedule S.

Separate Accounts

Comments: The Company did not correctly classify its liabilities on the Separate Accounts Statements during the examination period. The Company was directed to reclassify policyholder reserves on its separate account.

Company's Response: The Company did not formally respond to this comment.

Current Findings: The Company addressed this specific issue. However, additional less material issues were identified, which have been communicated to the Company.

LIHTC Partnerships

Comments: It was noted that the statement values reported by Kansas City Life for its LIHTC partnership investments were not based upon the GAAP equity method prescribed by the Accounting Practices and Procedures Manual of the NAIC. The Company's proposed method to estimate GAAP equity based upon Schedule K-1 of the tax return appears reasonable for 1999 statement values only. However, the use of a residual value is not authorized by the NAIC Accounting Practices and Procedures Manual and therefore, should not be used in the application of GAAP losses to estimate GAAP equity balances.

Company's Response: The Company did not formally respond to this comment.

Current Findings: The Company has corrected the reporting problems indicated in a majority of the individual investments. However, continuing reporting problems were noted during this examination on a few immaterial cases. These have been included in separate communication to the Company.

Interest Maintenance Reserve

Comments: The Company incorrectly calculated the capital gains tax associated with the capital gains and losses that were transferred to the Interest Maintenance Reserve (IMR) for each of the years under examination. The Company should ensure that the capital gains taxes are properly calculated for IMR gains and losses in the future. Further, the Company is ordered to recalculate the IMR as of December 31, 2000 to reflect the examination balance of \$24,997,470, as of December 31, 1999, and to correct the capital gains taxes for the 2000 IMR gains and losses.

Company's Response: The Company did not provide a formal response to this comment.

Current Findings: The Company implemented the prior examination recommendation.

Suspense Accounts

Comments: The Company could not provide reconciliations, as of December 31, 1999, for most of the 83 suspense accounts included in the Remittances and Items Not Allocated line. The Company should ensure that all suspense accounts are reconciled on at least on a quarterly basis.

Company's Response: The Company did not provide a formal response to this comment.

Current Findings: Additional problems were noted regarding this account during this examination. See the Notes to the Financial Statements section of this report under "Remittances and Items Not Allocated" for more details.

Pledged Assets

Comments: The Company should minimize the amount of assets pledged to the Federal Home Loan Bank in excess of loans payable, since the excess pledged assets are not available for the benefit of all policyholders, claimants, and creditors of Kansas City Life.

Company's Response: The Company did not formally respond to this comment.

Current Findings: No additional problems were noted specific to this issue.

HISTORY

General

The Company was originally incorporated under the assessment laws of Missouri on May 1, 1895, and commenced business in June 1895 as Bankers Life Association. In June 1899, the Company was reincorporated as a stipulated premium company and changed its name to Kansas City Life Insurance Company on June 13, 1903. The Company currently operates as a stock life insurance company, in accordance with the provisions of Chapter 376, Revised Statutes of Missouri (RSMo) (Life and Accident Insurance). The early history of Kansas City Life is described in previous examination reports on file with the MDI.

Capital Stock

The Company is authorized to issue 36,000,000 shares of \$1.25 par value common stock. As of December 31, 2002, 18,496,680 shares of common stock were issued, which consisted of 11,996,183 shares outstanding and 6,500,497 shares of treasury stock. As of December 31, 2002, the total par value of outstanding common stock was \$23,120,850 and the total cost of treasury stock was \$110,638,637. Kansas City Life's stock is publicly traded under the stock symbol "KCLI."

Dividends

Cash dividends declared and paid on common stock during the examination period were as follows: 2002 - \$12,956,344, 2001 - \$12,990,994, 2000 - \$12,036,777.

Management

The Articles of Incorporation require fifteen Directors to be appointed to the Board, each Director to serve a three-year term. The number of Directors serving in the year 2000 were only thirteen, however, two new Directors were elected at the annual shareholders meeting in April, 2001 and the number of Directors serving has been fifteen since then.

The Board of Directors elected and serving as of December 31, 2002, were as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
Joseph R. Bixby	Kansas City, Missouri	Chairman of the Board, Kansas City Life
R. Phillip Bixby	Kansas City, Missouri	President, CEO & Vice Chairman of the Board, Kansas City Life
Walter E. Bixby	Kansas City, Missouri	President, Old American
William R. Blessing	Leawood, Kansas	Senior Vice President, Sprint PCS
Webb R. Gilmore	Kansas City, Missouri	Chairman and Chief Executive Officer, Gilmore and Bell, P.C.
Bruce W. Gordon	Leawood, Kansas	Senior Vice President, Kansas City Life
Nancy Bixby Hudson	Lander, Wyoming	Director, Sunset Life Insurance Company of America
Warren J. Hunzicker, M.D.	Kansas City, Missouri	Retired Medical Director & Consultant
Daryl D. Jensen	Olympia, Washington	Vice President, Western Institution Review Board
Tracy W. Knapp	Overland Park, Kansas	Senior Vice President, Finance, Kansas City Life
Cecil R. Miller	Overland Park, Kansas	Partner (Retired), KPMG, LLP
Michael J. Ross	St. Louis, Missouri	Chairman of the Board Jefferson Bank and Trust Company
Elizabeth T. Solberg	Kansas City, Missouri	Regional President and Senior Partner, Fleishman-Hillard, Inc.
William A. Schalekamp	Mission Hills, Kansas	Senior Vice President, General Counsel and Secretary, Kansas City Life
Larry Winn, Jr.	Prairie Village, Kansas	U.S. Congressman (retired)

The Company's Bylaws authorize an Executive Committee, Nominating Committee, Audit Committee, and any other committees that may be needed. Each committee must consist of two or more directors. The established committees and the members elected and serving as of December 31, 2002, were as follows:

Executive Committee

J. R. Bixby
R. Philip Bixby
Webb R. Gilmore
Tracy W. Knapp
Michael J. Ross
William A. Schalekamp
Larry Winn, Jr.

Personnel Committee

R. Philip Bixby, Chairman
Walter E. Bixby
Charles R. Duffy, Jr.
Bruce W. Gordon
Robert C. Miller
Mark A. Milton

Compensation Committee

Michael J. Ross
Elizabeth T. Solberg
Larry Winn, Jr.

Audit Committee

Cecil R. Miller, Chairman
Michael J. Ross
Larry Winn, Jr.

Investment Committee

R. Philip Bixby, Chairman
Walter E. Bixby
Charles R. Duffy, Jr.
Bruce W. Gordon
Tracy W. Knapp
Mark A. Milton
Robert C. Miller
William Schalekamp

The senior officers elected and serving as of December 31, 2002, were as follows:

Joseph R. Bixby
R. Philip Bixby
Charles R. Duffy, Jr.
Tracy W. Knapp
Bruce W. Gordon
William A. Schalekamp
Robert C. Miller
Mark A. Milton
William G. Burnett
Peter Hathaway, M.D.
Michael P. Horton+
John K. Koetting*

Chairman of the Board
President, CEO & Vice Chairman of the Board
Senior Vice President – Operations
Senior Vice President – Finance
Senior Vice President – Marketing
Senior Vice President, General Counsel & Secretary
Senior Vice President – Administrative Services
Senior Vice President and Actuary
Vice President – Marketing Services
Vice President and Medical Director
Vice President – Group
Vice President and Controller

Donald E. Krebs	Vice President – Agency Marketing
Robert J. Milroy	Vice President – Policy Administration
John Todd Salash	Vice President – Computer Information Services
Dan L. Schick	Vice President and Auditor
William W. Sears	Vice President – Insurance Services
Gregory E. Smith	Vice President – Broker/Dealer
Scott M. Stone@	Vice President – Securities
Anne C. Moberg#	Treasurer

+Replaced in July 2003 by David Duncan

*Resigned in January 2003 and was replaced by Brent C. Nelson in October 2003

@Replaced in July 2003 by Philip Williams

#Replaced in January 2003 by Mary C. McCalla

Conflict of Interest

Kansas City Life requires its directors, officers, and key employees to annually complete a conflict of interest questionnaire. Completed questionnaires were reviewed for all directors and officers for the examination period. No material conflicts were noted.

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed for the period under examination. Neither the Articles of Incorporation nor the Bylaws were amended during the examination period.

The minutes of the Board of Directors' meetings, committee meetings, and stockholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

Kansas City Life established a subsidiary bank, Generations Bank on July 3, 2000, which it wholly owns. Generations Bank was created to expand the financial services available to

policyholders and sales agents of Kansas City Life. Beginning March 1, 2001, the Company began utilizing Generations Bank to establish personal growth accounts (PGA) for Kansas City Life policyholders. Proceeds from claims and surrenders are deposited into a checking account with Generations Bank instead of paying the proceeds directly to the policyholder. The policyholder then becomes a customer of Generations Bank. Generations Bank also provides typical banking services to customers unrelated to the insurance operations. By year-end 2002, total assets of Generations Bank had grown to \$65 million as its loan and deposit balances increased significantly.

Subsequent to the examination date the Company acquired GuideOne Life Insurance Company (GuideOne). Prior to the acquisition, GuideOne Life Insurance Company, an Iowa corporation, was a stock life insurer owned directly by The GuideOne Financial Group, Inc., a holding company owned by GuideOne Mutual Insurance Company and GuideOne Specialty Mutual Insurance Company, all of West Des Moines, Iowa. The acquisition was in the form of a purchase and became effective on June 30, 2003, following the approvals of the Missouri and Iowa Departments of Insurance. See the Subsequent Events section of this report for more information about the acquisition of GuideOne.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

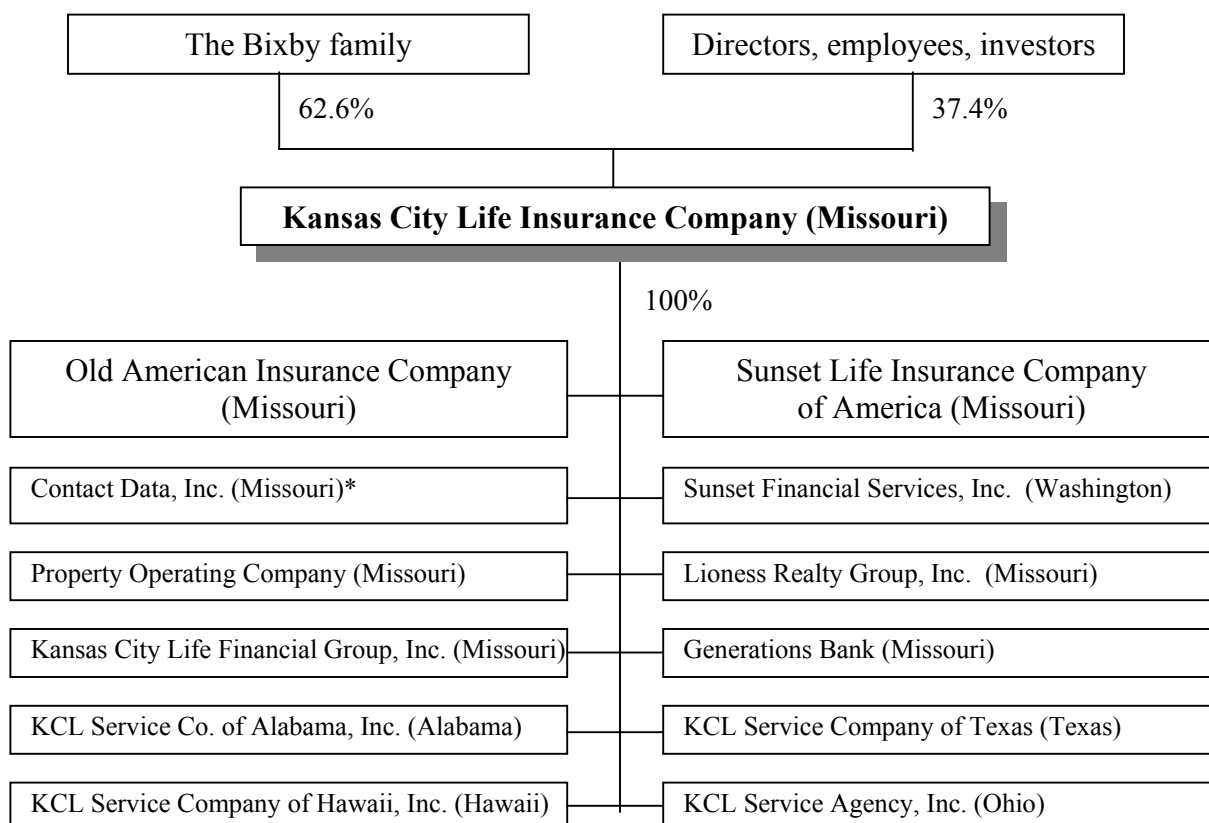
Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by Kansas City Life Insurance Company on behalf of itself and its subsidiaries, for each year of the examination period. The Bixby family, consisting of several individuals, is the ultimate controlling entity of Kansas City Life.

Kansas City Life owns two insurance subsidiaries, Old American Insurance Company and Sunset Life Insurance Company of America. Both companies are life and health insurers, organized as Missouri corporations. Kansas City Life is also the parent and wholly owns ten other non-insurance subsidiaries. Contact Data, Inc., a Missouri corporation, works primarily for Old American by producing direct mailings and magazine inserts to generate new business leads. Sunset Financial Services, Inc. (SFS), a Missouri corporation, markets all of Kansas City Life and Sunset Life variable products and performs investment services for policyholders. Generations Bank, a federal stock savings bank chartered in Missouri, administers personal growth accounts (PGA) for Kansas City Life and its insurance subsidiaries' policyholders. Proceeds from claims and surrenders are deposited into a checking account with Generations Bank instead of paying the proceeds directly to the policyholder. The policyholder then becomes a customer of Generations Bank. Generations Bank also provides typical banking services to customers unrelated to the insurance operations. Lioness Realty Group, Inc. (Lioness) formerly managed the real estate owned by Kansas City Life and other non-affiliated companies, but is now inactive. The other six subsidiaries are currently inactive or do not have any significant operations.

Organizational Chart

The following organizational chart depicts Kansas City Life's ownership and holding company structure, as of December 31, 2002:



*Terminated its corporate charter with the state of Missouri effective December 19, 2003.

Intercompany Transactions

The Company's significant intercompany agreements are outlined below.

1. Type: Tax Allocation Agreement

Affiliates: Old American and Sunset Life

Effective: January 1, 1988

Terms: A consolidated federal income tax return is filed each year. The portion of the consolidated tax liability that is allocated to Old American and Sunset Life is based upon the subsidiary's liability on a stand-alone basis. Intercompany tax settlements are made approximately 30 days after the filing of the tax return.

2. **Type:** Cost Sharing Agreement
Affiliate: Old American
Effective: May 22, 1992
Terms: Kansas City Life employees perform necessary services for Old American. These services include data processing, personnel, investment, tax, management, and other administrative services. Salaries and benefits are allocated based upon a time study for the applicable employees. Any expenses that are specifically for Old American are not subject to allocation and are charged 100% to Old American. Allocated costs are to be reimbursed at least on a quarterly basis.
3. **Type:** Cost Sharing Agreement
Affiliate: Sunset Life
Effective: August 7, 1992
Terms: Kansas City Life employees perform necessary services for Sunset Life. These services include data processing, personnel, investment, and tax, management, and other administrative services. Salaries and benefits are allocated based upon a time study for the applicable employees. Any expenses that are specifically for Sunset Life are not subject to allocation and are charged 100% to Sunset Life. Allocated costs are to be reimbursed at least on a quarterly basis.
4. **Type:** Expense Agreement
Affiliate: Sunset Financial Services, Inc.
Effective: September 18, 1997
Terms: Kansas City Life provides office space, equipment and supplies for SFS in Kansas City Life's home office in Kansas City, Missouri. Kansas City Life employees also provide accounting, legal, administrative, computer, and other services for SFS. Costs for office space are charged to SFS based upon market rates and other expenses are allocated based upon a time study for the applicable employees. SFS employees may provide product administration services for Kansas City Life, which include advertising, processing applications, and collecting premiums.
5. **Type:** Distribution Agreement
Affiliate: Sunset Financial Services, Inc.
Effective: September 27, 1995
Terms: SFS is the exclusive agent for the distribution and underwriting of Kansas City Life's variable annuity and variable universal life products. SFS shall use its best efforts to market and sell the products directly or through licensed brokers and agents. Commissions are to be paid by Kansas City Life to the agents and brokers.

- 6. Type:** Corporate Cost Contract
Affiliates: Lioness Realty Group, Inc.
Effective: August 10, 1989
Terms: Kansas City Life provides legal, accounting, investment, and other administrative services for Lioness. Kansas City Life also provides sales personnel to conduct the operational activities of Lioness. Expenses for the services provided are to be determined by Kansas City Life and shall be paid on at least a quarterly basis. Note: Lioness became inactive after December 31, 2002.
- 7. Type:** Management Contract
Affiliate: Lioness Realty Group, Inc.
Effective: September 1, 1993
Terms: Lioness shall manage, handle, and operate the properties owned by Kansas City Life. The responsibilities of Lioness include the hiring and supervision of building and maintenance employees, cleaning services, negotiation of leases, collection of rents, repairs, and payment of operating costs. Kansas City Life will directly pay for the costs of employees (except for the property managers) and for the costs of repairs and maintenance. Kansas City Life shall also pay fees to Lioness based upon a percentage of the gross rents and other receipts from managed properties. Note: Lioness became inactive after December 31, 2002.
- 8. Type:** Lease Agreement
Affiliate: Generations Bank
Effective: July 3, 2000
Terms: Generations Bank will lease space in Kansas City Life's home office building in Kansas City, Missouri. Lease payments shall be \$39,360 per year.
- 9. Type:** Note Agreement
Affiliate: Generations Bank
Effective: July 1, 2002 with an expiration date of July 1, 2003. The Company filed and obtained a one-year extension, ending July 1, 2004.
Terms: Generations Bank may borrow up to \$5,000,000 from Kansas City Life. Interest is payable at 0.5% above the Federal Funds Rate on any amounts that are borrowed.
- 10. Type:** Loan Guarantee
Affiliate: Old American Insurance Company

Effective: May 4, 1999

Terms: Kansas City Life has guaranteed the indebtedness of Old American on borrowings under the Commerce Bank \$20,000,000 Line of Credit.

11. Type: Loan Guarantee

Affiliate: Sunset Life Insurance Company of America

Effective: August 4, 1999

Terms: Kansas City Life has guaranteed the indebtedness of Sunset Life on borrowings under the UMB Bank \$10,000,000 Line of Credit.

The Company has a reinsurance agreement with Sunset Life. The terms of this agreement are described in the Reinsurance section of this report. Premiums ceded by Sunset Life to Kansas City Life during the examination period are also listed in the Reinsurance section.

The Missouri Department of Insurance approved Kansas City Life's financial guarantees on bank credit lines for the insurance subsidiaries noted above in December 2003.

The Company has also issued guarantees for minimum amounts of capital and surplus for Sunset Life. These guarantees were necessary for Sunset Life's licensure in three states. A written guarantee was executed on June 18, 1998, for the State of Ohio. Guarantees for Connecticut and Iowa were made in the form of Board of Directors' resolutions that were documented in the April 26, 1999, minutes.

The amounts (paid) to and received from subsidiaries during the period under examination under the above agreements were as follows:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Cost Sharing Agreement – Old American:			
Paid to Kansas City Life	\$4,062,000	\$3,907,000	\$3,288,000
Cost Sharing Agreement – Sunset Life:			
Paid to Kansas City Life	6,552,000	6,643,000	6,464,000
Lease Agreement – Generations Bank:			
Paid to Kansas City Life	0	59,040	39,360
Distribution Agreement – Sunset Financial Services:			
Paid to Kansas City Life	1,419,873	1,045,120	969,430
Management Contract – Lioness Realty Group:			
Received from Kansas City Life	(162,666)	106,463	70,745
Federal Income Tax Allocation Agreement:			
Received from – Old American	2,455,578	1,553,993	3,600,368
Dividends Received from Subsidiaries:			
Sunset Life	0	6,300,000	0
Old American	0	5,625,000	8,700,000
Federal Income Tax Allocation Agreement:			
Paid to/(Received from) – Sunset Life	<u>1,565,999</u>	<u>991,936</u>	<u>(3,074,198)</u>
Net Amount (Paid) or Received	<u>\$15,892,784</u>	<u>\$26,231,552</u>	<u>\$20,057,705</u>

The amounts reported in the table above in some of the cases reflect net amounts, where the entities to the agreement provide and receive services from each other.

The Company is in the process of executing a Master Services Agreement with Generations Bank for services that are provided by Kansas City Life, such as payroll, investment, computer information, and other administrative services. Kansas City Life has been providing services for Generations Bank since it began operations in July 2000, but no payments have been received for these services, as of the date of this report. The Company should file the agreement with the MDI for approval as required by Section 382.195 RSMo (Transactions Within a Holding Company System).

Kansas City Life has an account with State Street Bank for payment of claims for itself and its insurance subsidiaries for the personal growth account business. The account, according to Kansas City Life, is utilized to pay claims for each of the subsidiaries and the subsidiaries are required to reimburse Kansas City Life. In effect, this is a joint intercompany claims account,

for which Kansas City Life is the paymaster. Kansas City Life did not report the underlying transaction as part of its related party transactions. See notes 2 and 3 on the Notes to the Financial Statements section of this report for additional details.

FIDELITY BOND AND OTHER INSURANCE

The Company and its subsidiaries are named insureds on a financial institution bond with a liability limit of \$5,000,000 and a \$100,000 deductible. This coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines. Kansas City Life is also a named insured on additional insurance policies that include, but are not limited to, the following: commercial general liability, commercial property, workers compensation, commercial umbrella, directors and officers liability, and business automobile.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

A variety of standard benefits are provided to the Company's employees. These benefits include, but are not limited to, health insurance, dental insurance, life insurance, disability insurance, a defined benefit pension plan, a 401(k) savings plan, a deferred compensation plan, and profit sharing plan. Post-retirement health insurance is provided to retirees that meet eligibility requirements.

Agents located throughout the United States may qualify for benefits similar to those provided for employees upon meeting production requirements. The pension plan for the agents

is a defined contribution plan. Qualified agents also are eligible for a deferred compensation plan.

Kansas City Life had unrecognized or “off balance sheet” liabilities for its defined benefit pension plan and its post-retirement benefit plans. These unrecognized liabilities result from the difference between the actual funded status of the plans and the assets or liabilities that were recorded in accordance with Statements of statutory accounting principles (SSAP). The unrecognized liabilities are as follows:

<u>Plan</u>	<u>Unfunded Amount as of 12/31/02</u>	<u>Liability Recorded as of 12/31/02</u>	<u>Unrecognized Liability</u>
Defined Benefit Pension	\$32,222,704	\$17,153,598	\$15,069,106
Post-Retirement Benefits	12,885,000	6,697,494	6,187,506

STATUTORY AND OTHER DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2002, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Trust Deposits). The Company’s required deposit for Missouri was \$600,000. The funds on deposit as of December 31, 2002, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Notes	\$2,000,000	\$2,300,000	\$2,046,036

Deposits with Other States

The Company also has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2002, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Georgia	U.S. Treasury Notes	\$50,000	\$55,922	\$50,154
Massachusetts	U.S. Treasury Notes	500,000	612,969	554,722
New Mexico	U.S. Treasury Notes	150,000	167,484	154,210
North Carolina	U.S. Treasury Notes	125,000	145,898	133,599
South Carolina	U.S. Treasury Notes	150,000	175,078	160,318
South Dakota	Corporate Bonds	<u>4,150,000</u>	<u>4,558,817</u>	<u>4,191,230</u>
Total		<u>\$5,125,000</u>	<u>\$5,716,168</u>	<u>\$5,244,233</u>

Other Deposits

The Company is the grantor in a Trust Agreement with Security Benefit Life Insurance Company (Security Benefit) as the named beneficiary. The trust is required to be maintained pursuant to a reinsurance agreement with Security Benefit, which is described in the Reinsurance section of this report. Kansas City Life's assets in the trust are maintained in a separate bank account. The trust funds on deposit as of December 31, 2002, were as follows:

<u>Type of Securities</u>	<u>Fair Value</u>	<u>Statement Value</u>
Bonds, Stocks and Mortgage Loans	\$327,630,703	\$331,444,312

The Company also had pledged assets to the Federal Home Loan Bank as collateral for \$70,000,000 of loans outstanding at the end of 2002. The pledged assets on deposit as of December 31, 2002, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Bonds	\$74,137,769	\$76,483,355	\$74,961,276

The assets held in a trust account for Security Benefit and the assets pledged as collateral for the Federal Home Loan Bank were not disclosed on Schedule E – Part 2 (Special Deposits) of the 2002 Annual Statement. The NAIC Annual Statement Instructions require disclosure of assets in a trust and pledged assets, since these assets are not for the benefit of all policyholders,

claimants, and creditors of the Company. The Company should ensure that the trust assets and pledged assets are properly listed on Schedule E – Part 2 in the future.

In addition, the value of the Company's investment in Federal Home Loan Bank in the form of common stock, which is a required qualification for borrowing, was also pledged. Per NAIC Annual Statement Instructions, the Company should have reported the value of this stock on Schedule E – Part 2 of the Annual Statement. The Company should ensure that this arrangement is properly reported in the future.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Kansas City Life Insurance Company is licensed by the Missouri Department of Insurance under Chapter 376 RSMo (Life, Health and Accident Insurance) to do business in the following kinds of insurance: life, accident and health (A&H), and variable contracts. As of December 31, 2002, the Company was licensed to transact the business of insurance in 48 states and the District of Columbia. As of December 31, 2002, the Company had no pending licenses.

The Company offers a portfolio of products including, but not limited to, whole life, term life, universal life, group life, annuities, and group accident and health. As of December 31, 2002, ordinary life insurance was the largest line of business with approximately 55% of the total direct written premium in 2002. Group accident and health was the second largest line with approximately 29% of the total direct written premium in 2002.

The Company also utilizes a Separate Account that offers variable universal life and variable annuity products. The Separate Account is another avenue to expand the services

offered by Kansas City Life. The fund value for each variable policy is based upon bond and stock mutual funds that are managed by third-party brokers.

The Company uses approximately 520 agents located throughout the United States to sell its products. Third Party Administrators (TPAs) are utilized for prepaid dental products only. Kansas City Life has an internal audit staff that performs agency audits. An audit is performed within 18 months of an agency starting to generate business for the Company. If no problems were noted from the initial audit of the agency, then a routine audit is performed about once every five years.

Policy Forms & Underwriting

Advertising & Sales Materials

Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff that performs a review of these issues and generates a separate market conduct report. The market conduct staff is currently performing a limited scope of the Company's rate books and underwriting manuals for the period spanning the Company's start of business through December 31, 1980. As of the end of this examination fieldwork, the report of the limited scope market conduct examination is not ready for our review and analysis.

The California Department of Insurance performed a market conduct examination of the Company's claims practices and procedures in California for the period February 1, 2001 through March 31, 2002 (report dated November 19, 2002). Minor errors were noted in the report and addressed by Company management. These do not appear to affect the Company's financial position.

REINSURANCE**General**

The Company's premium and annuity activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Direct Business	\$181,900,051	\$179,836,258	\$189,429,673
Reinsurance Assumed:			
Affiliates	660,788	706,060	698,468
Non-affiliates	19,651,563	20,088,300	21,717,102
Reinsurance Ceded:			
Affiliates			
Non-affiliates	<u>(22,250,517)</u>	<u>(26,727,557)</u>	<u>(23,731,999)</u>
Net Premiums Written	<u>\$179,961,885</u>	<u>\$173,903,061</u>	<u>\$188,113,244</u>

Assumed

The Company entered into a Coinsurance and Servicing Agreement, effective April 1, 1997, with Security Benefit Life Insurance Company (Security Benefit). Kansas City Life assumed 100% of Security Benefit's existing traditional individual life and non-variable universal life business and all new business produced for this block. The block consisted of approximately 100,000 policies and \$3.8 billion of insurance in-force, as of the effective date. As of December 31, 2002, the Security Benefit assumed reserves were \$285 million, which represented 23% of the total policy reserves for life and annuity lines. Kansas City Life performs all the policy administration functions related to this block of business including underwriting.

The Company has an agreement with its subsidiary, Sunset Life, effective September 1, 1993. Kansas City Life reinsures all of the life business of Sunset Life, up to \$2,450,000 of face value per policy, on policies issued since 1976. Sunset Life's retention is a maximum of

\$350,000 per risk. Beginning in 1994 the Company no longer reinsured any of Sunset Life's term life products.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

A summary of the significant reinsurers for ceded life business is as follows as of December 31, 2002, is as follows:

<u>Reinsurer</u>	<u>Ceded Life Reserves (000's)</u>	<u>Percent of Total Ceded Life Reserves</u>	<u>Ceded A&H Reserves (000's)</u>	<u>Percent of Total Ceded A&H Reserves</u>
Lewer Life Insurance Company	\$6,282	11%	0	-na-
Reassure America Life	4,423	8%	0	-na-
Transamerica Occidental Life	4,124	8%	0	-na-
Lincoln National Life	4,023	7%	0	-na-
Transamerica Int'l Re (Bermuda)Ltd.	3,372	6%	0	-na-
Hartford Life & Accident	0	0	11,439	94%

The active reinsurance agreements, as of December 31, 2002, with the above listed reinsurers are described below.

The Company has a 50% coinsurance agreement, effective April 1, 1991, with Lewer Life Insurance Company to cede universal life business produced by an agency affiliated with Lewer. The maximum face value per policy that may be reinsured is \$2,450,000.

The Company has a 100% coinsurance agreement, effective April 1, 2001, with Reassure America Life Insurance Company. This agreement cedes the net retained inforce group life liabilities on disabled lives prior to 1999. The related reserve totaled \$5,558,118 as of March 31, 2001. The Company incorrectly reported the reinsurer as Swiss Re Life & Health America

(Swiss Re) in the 2002 Annual Statement, Schedule S – pt.3. Reassure America is a subsidiary of Swiss Re.

The Company has a yearly renewable term reinsurance agreement, effective January 1, 1994, with Transamerica Occidental Life Insurance Company to cede individual risk on term life insurance products. The maximum issue amount subject to reinsurance is \$4,500,000 per policy. Transamerica's participating percentage varies by product at approximately 20%. Kansas City Life's retention is 20% up to a maximum retention of \$350,000 per policy. The Company cedes additional portions of these risks to other reinsurers.

The Company has a quota share agreement, effective January 1, 2000, with Lincoln National Life Insurance Company, to cede individual risk on term life insurance products. Kansas City Life's retention is 10% up to a maximum retention of \$350,000 per policy. The Company cedes additional portions of these risks to other reinsurers.

The Company has a coinsurance agreement, effective January 1, 2000, with Transamerica International Reinsurance (Bermuda) Ltd. Transamerica International will automatically reinsure, on a first dollar quota share basis, 35% of each risk of the individual life twenty-year level term product line. The agreement was terminated for new business as of June 1, 2002. Kansas City Life's retention is 10% up to a maximum retention of \$350,000 per policy. The Company cedes additional portions of these risks to other reinsurers.

The Company has an 80% coinsurance agreement, effective January 1, 1998, with Hartford Life & Accident Insurance Company to cede group long-term disability policies. Kansas City Life's retention is 20%. As of December 31, 2002, reserves of \$11.4 million were ceded to Hartford Life, which represented 94% of the total ceded A&H reserves.

ACCOUNTS AND RECORDS

General

The Company's financial statements were audited by the CPA firm, KPMG, LLP, of Kansas City, Missouri, for all years in the examination period.

Policy and claim reserves were reviewed and certified by Stephen A. Bader, FSA, MAAA, for all years in the examination period. Mr. Bader is an employee of Kansas City Life.

The Company's accounting system with respect to its general ledger and the trial balances is unusually complex resulting in numerous non-ledger entries that do not reconcile to the related lines of the Annual Statement. As a result of these numerous non-ledger accounts, it is necessary that the Company prepare and maintain a reconciliation of statutory capital and surplus with the ledger capital and surplus accounts, including the non-ledger items. It is also necessary that the Company's non-ledger entries indicate which line of the Annual Statement (pages 2 through 4) the entry relates, to provide for ease of tracing amounts from the general ledger and the related non-ledger accounts to the affected Annual Statement lines. As an alternative, the Company may choose to eliminate the non-ledger system and replace it with a system that assigns general ledger account numbers to accounts, as is customary in the insurance industry.

The Company's custodial agreement with United Missouri Bank that was in effect during the examination period was deficient relative to the requirements of the NAIC, as stipulated in the Financial Examiners Handbook. Kansas City Life provided a revised and an updated version of the agreement; however, the agreement was also deficient, as it did **not** contain an acknowledgment by the custodian to assume liability for consequential damage that may arise out of loss or theft of the securities under custody. This language is contained in section 6(a) of

the custodial agreement. The Company is directed to amend the agreement to include the specific language. Also, the Company could not provide a custodial agreement regarding securities on custody with Fidelity Investment and for various custodial accounts in its Separate Account. The Company is directed to obtain custodial agreements with each of the custodians and ensure that the agreement wordings reflect in its entirety the requirements of the NAIC with respect to custodial agreements.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Kansas City Life for the period ending December 31, 2002. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the “Notes to the Financial Statements.” The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the “Notes to the Financial Statements.” These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets

	<u>Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$1,577,308,663	\$15,672,924	\$1,561,635,739
Preferred Stocks	18,267,281		18,267,281
Common Stocks	130,521,614		130,521,614
Mortgage Loans on Real Estate	345,067,599		345,067,599
Real Estate:			
Properties Occupied by the Company	6,260,485		6,260,485
Properties Held for the Production of Income (Note 1)	63,353,772		63,353,772
Policy Loans	86,645,629	31,000	86,614,629
Cash and Short-term Investments (Note 2)	100,284,305	4,853,399	95,430,906
Other Invested Assets	41,678,429	15,326,565	26,351,864
Amounts Recoverable from Reinsurers	924,441		924,441
Commissions and Expense Allowances Due	248,023		248,023
Electronic Data Processing Equipment	1,648,201		1,648,201
Federal Income Tax Recoverable	55,256,595	46,169,749	9,086,846
Guaranty Funds Receivable	152,745	14,130	138,615
Life Insurance Premiums and Annuity			
Considerations Deferred and Uncollected	16,214,526	78,042	16,136,484
Accident & Health Premiums Due and Unpaid	953,635		953,635
Investment Income Due and Accrued	28,124,339	993,065	27,131,274
Receivable from Parent, Subsidiaries and Affiliates (Note 3)	145,879	(4,555,947)	4,701,826
Amounts Due from Agents	4,985,005	4,985,005	0
Other Assets Non-Admitted	26,500,820	26,500,820	0
Aggregate Write-Ins for other than Invested Assets:			
Real Estate Deposits	4,387	4,387	0
Deferred Compensation	9,927,570		9,927,570
Assets from Separate Accounts Statement	<u>244,861,831</u>	<u>0</u>	<u>244,861,831</u>
TOTAL ASSETS	<u>\$2,759,335,774</u>	<u>\$110,073,139</u>	<u>\$2,649,262,635</u>

Liabilities, Surplus and Other Funds

Aggregate Reserve for Life Policies and Contracts	\$1,269,546,067
Aggregate Reserve for Accident and Health Policies	3,164,033
Liability for Deposit-type Contracts	694,543,874
Policy and Contract Claims – Life	9,596,304
Policy and Contract Claims – Accident and Health	4,959,864
Policyholders' Dividend and Coupon Accumulations	30,797
Policyholders' Dividends Apportioned for Payment	4,674,000
Premiums and Annuity Considerations Received in Advance	712,617
Provision for Experience Rating Refunds	65,709
Interest Maintenance Reserve	16,507,814
General Expenses Due or Accrued	5,654,024
Transfers to Separate Accounts Due or Accrued	(21,725,757)
Taxes, Licenses and Fees Due or Accrued	1,819,858
Federal Income Taxes Due or Accrued	604,977
Unearned Investment Income	1,064,289
Amounts Withheld or Retained	33,047,246
Amounts Held for Agents' Account	3,724,444
Remittances and Items Not Allocated (Note 4)	4,277,770
Liability for Benefits for Employees and Agents	37,195,455
Borrowed Money	70,107,531
Asset Valuation Reserve	18,200,000
Aggregate Write-Ins for Liabilities:	
Investment Valuation Reserve	4,697,094
Liabilities from Separate Accounts Statement	<u>244,861,831</u>
TOTAL LIABILITIES	\$2,407,329,841
Common Capital Stock	23,120,850
Gross Paid In and Contributed Surplus	22,605,263
Unassigned Funds (Surplus)	306,845,318
Less Treasury Stock	<u>(110,638,637)</u>
Capital and Surplus	<u>\$241,932,794</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$2,649,262,635</u>

Summary of Operations

Premiums and Annuity Considerations	\$179,961,885
Considerations for Supplementary Contracts with Life Contingencies	6,000,275
Net Investment Income	164,623,270
Amortization of Interest Maintenance Reserve	(436,958)
Commission and Expense Allowances on Reinsurance Ceded	3,085,526
Miscellaneous Income	<u>19,758,934</u>
TOTAL	<u>\$372,992,932</u>
Death Benefits	64,179,030
Matured Endowments	959,734
Annuity Benefits	15,781,210
Disability Benefits and Benefits Under Accident & Health Policies	35,734,304
Coupons, Guaranteed Endowments and Similar Benefits	88,226
Surrender Benefits and Withdrawals for Life Contracts	47,748,364
Interest and Adjustments on Contract and Deposit-type Contract Funds	36,398,119
Payments on Supplementary Contracts with Life Contingencies	10,653,358
Increase in Aggregate Reserves for Life and Accident & Health Policies	3,695,076
Commissions on Premiums and Annuity Considerations	24,143,730
Commissions and Expense Allowances on Reinsurance Assumed	435,010
General Insurance Expenses	84,466,214
Insurance Taxes, Licenses and Fees	5,990,036
Increase in Loading on Deferred and Uncollected Premiums	(303,962)
Net Transfers to Separate Accounts	17,158,095
Aggregate Write-Ins for Deductions:	
Miscellaneous Interest Paid, MODCO Reserves, Exp. Rated Refunds	<u>2,684,478</u>
TOTAL	<u>\$349,811,022</u>
NET GAIN FROM OPERATIONS	\$23,181,910
Dividends to Policyholders	4,345,947
Federal Income Taxes Incurred	(1,443,902)
Net Realized Capital Gains and Losses	<u>(5,501,155)</u>
NET INCOME	<u>\$14,778,710</u>

Capital and Surplus Account

Capital and Surplus, December 31, 2001	\$266,207,548
Net Income	14,778,710
Change in Net Unrealized Capital Gains or (Losses)	(13,318,470)
Change in Non-Admitted Assets	(37,816,595)
Change in Reserve on Account of Change in Valuation Basis	(610,158)
Change in Asset Valuation Reserve	11,800,000
Change in Treasury Stock	(2,009,092)
Change in Net Deferred Income Tax	16,909,261
Dividends to Stockholders	(12,956,344)
Change in Investment Valuation Reserve	(1,913,275)
Surplus Adjustment: Paid In	<u>861,209</u>
Net Change in Capital and Surplus	<u>(\$24,274,754)</u>
CAPITAL AND SURPLUS, DECEMBER 31, 2002	<u>\$241,932,794</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Properties Held for the Production of Income **\$63,353,772**

This examination noted 19 properties reported by the Company that did not have current appraisals as required by SSAP #40, paragraphs 11-12 (Real Estate Investments). SSAP #40, paragraph 12 requires that investment properties with appraisals older than five years be non-admitted. The carrying values of these properties as of the examination date totaled \$19.4 million. The Company provided alternative procedures to a formal appraisal for each of the properties, however, the procedures employed by the Company did not sufficiently cover all the factors stipulated by paragraph 11 of SSAP #40. The MDI has taken a position to allow the

carrying values of these properties as an admitted asset for this examination period only. The Company is hereby directed to implement the requirements of SSAP #40, paragraphs 11-12 going forward. Any investment real estate not meeting the prescribed requirements would be non-admitted during future examinations.

Note 2 – Cash and Short-term Investments

\$95,430,906

The amount reported by the Company for this account was reduced by \$4,555,947 and the amount reported by the Company for Receivable from Parent, Subsidiaries and Affiliates was increased by the same amount. This reclassification was made to properly reflect the Company's transaction with Old American and Sunset Life with respect to the personal growth account business. Kansas City Life has an account with State Street Bank for payment of claims for itself and its insurance subsidiaries for the personal growth account business. The account, according to Kansas City Life, is utilized to pay claims for each of the subsidiaries and the subsidiaries are required to reimburse Kansas City Life. In effect, this is a joint intercompany claims account, for which Kansas City Life is the paymaster. As of December 31, 2002, Kansas City Life improperly included \$3,564,243 from Old American and \$991,704 from Sunset Life for a total of \$4,555,947, as part of its cash account. However, this examination was unable to confirm this amount with State Street Bank, as the amount does not reside with the bank. These balances actually represent intercompany transaction receivables, which should have been reported differently as part of related party transactions. The Company is directed to report as its cash only those amounts that actually reside with the bank and can be verified through direct confirmation by the examination process.

Note 3 – Receivable from Parent, Subsidiaries and Affiliates**\$4,701,826**

The amount reported by the Company for this account was increased by \$4,555,947 to reflect intercompany transactions improperly reported by the Company as part of the Cash account, see Note #2 above. The Company is directed to properly and accurately report the underlying transaction in the future. In addition, the underlying transaction between Kansas City Life and its insurance subsidiaries constitute intercompany transactions in accordance with the Missouri holding company law. Consequently, the Company is directed to enter into an intercompany agreement with Old American and Sunset Life, describing each entity's role with respect to the payment of claims in the personal growth account. The Company should submit the agreement to the MDI in accordance with Section 382.195 RSMo (Transactions within a holding company system).

Note 4 – Remittances and Items Not Allocated**\$4,277,770**

As noted in the prior examination, the Company continues to have reporting problems regarding transactions in this account. The problems can be summarized as follows: 1) most of the general ledger accounts included in the Annual Statement balance included both debits and credits, which were netted and included as a single amount for Annual Statement purposes. Per SSAP #64 (Offsetting and Netting of Assets and Liabilities) only debits and credits for the same party may be offset - the Company cannot offset a liability to one policyholder with an asset due from a different policyholder. Any debit balances should be shown on the Asset page of the Annual Statement (on the appropriate line) and a determination of admissibility made based on SSAP #4 (Assets and Nonadmitted Assets), and 2) several of the general ledger accounts with credit balances did not meet the criteria for reporting on this line of the Annual Statement. Per the NAIC Annual Statement instructions, this line should include "cash receipts that cannot be

identified for a specific purpose or, for other reasons, cannot be applied to a specific account when received". The Company included claims payment liabilities, reinsurance liabilities, garnishments, etc., which clearly do not meet the above definition. The Company should ensure that, per SSAP #64, unrelated debits and credits within the same general ledger account or between two or more general ledger accounts are not netted, but included as distinct assets/liabilities on the Annual Statement. In addition, the Company should ensure it follows the NAIC SSAP's and Annual Statement Instructions guidance in completing the Annual Statement.

EXAMINATION CHANGES

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Intercompany Agreements (page 16)

The Company provides various services for Generations Bank that is represented by a draft Master Service Agreement that has not been filed with the MDI for review and possible approval. The Company should file the agreement with the MDI for approval as required by Section 382.195 RSMo (Transactions Within a Holding Company System). The Company should also ensure that any future related party transactions that are not covered by a specific agreement are properly filed with the MDI.

Other Deposits (page 19)

The Company should ensure that its assets placed in a trust account for Security Benefit Life and assets pledged as collateral to the Federal Home Loan Bank, including the pledged

value of the common stock of Federal Home Loan Bank owned by the Company, are properly disclosed on Schedule E – Part 2 (Special Deposits) of the Annual Statement in the future.

Accounts and Records (page 25)

The Company should reduce and possibly eliminate the unusual complexity in its accounting system by abandoning the non-ledger approach and replacing the current system with one that assigns general ledger numbers to accounts that can easily be traced to the Annual Statement lines. Alternatively, the Company should prepare and maintain reconciliation workpapers for Annual Statement lines on pages 2 through 4 of the Annual Statement.

Custodial Agreements (page 26)

The Company's custodial agreement with United Missouri Bank is deficient, as it did not contain an acknowledgment by the custodian to assume liability for consequential damage that may arise out of loss or theft of the securities under custody.

The Company could not provide a custodial agreement regarding securities on custody with Fidelity Investments and for various custodial accounts in its Separate Account. The Company is directed to obtain custodial agreements with each of the custodians and ensure that the agreement wordings reflect in its entirety the requirements of the NAIC with respect to custodial agreements.

Properties Held for the Production of Income (page 30)

This examination noted 19 properties reported by the Company that did not have current appraisals as required by SSAP #40, paragraphs 11-12 (Real Estate Investments). The Company is hereby directed to implement the requirements of SSAP #40, paragraphs 11-12 going forward.

Any investment real estate not meeting the prescribed requirements would be non-admitted during future examinations.

Cash and Short-term Investments (page 31)

The Company improperly reported receivables from its two insurance subsidiaries as part of the cash account. The Company is directed to report as its cash only those amounts that actually reside with the bank and can be verified through direct confirmation by the examination process.

Receivable from Parent, Subsidiaries and Affiliates (page 32)

Kansas City Life has an account with State Street Bank for payment of claims for itself and its insurance subsidiaries for the personal growth account business. At year-end 2002, the subsidiaries owed the Company for unreimbursed claims paid by Kansas City Life. However, Kansas City Life improperly reported the unreimbursed amount as part of cash, which understated the amount receivable from its subsidiaries. The Company is directed to properly and accurately report the underlying transaction in the future.

The underlying transaction between Kansas City Life and its insurance subsidiaries as noted above constitutes an intercompany transaction in accordance with the Missouri holding company law. The Company should submit an agreement to the MDI in accordance with Section 382.195 RSMo (Transactions within a holding company system) for review and possible approval.

Remittances and Items Not Allocated (page 32)

The Company's accounting and reporting for this line of the Annual Statement is inconsistent with prescribed standards and procedures. The Company should ensure that, per SSAP #64, unrelated debits and credits within the same general ledger account or between two or more general ledger accounts are not netted, but included as distinct assets/liabilities on the

Annual Statement. Overall, the Company should ensure it follows the NAIC SSAP's and NAIC's Annual Statement Instructions guidance in completing the Annual Statement.

SUBSEQUENT EVENTS

Subsequent to the examination date, the Company acquired GuideOne Life Insurance Company (GuideOne). Prior to the acquisition, GuideOne Life Insurance Company, an Iowa corporation, was a stock life insurer owned directly by The GuideOne Financial Group, Inc., a holding company owned by GuideOne Mutual Insurance Company and GuideOne Specialty Mutual Insurance Company, all of West Des Moines, Iowa. The acquisition was in the form of a purchase and became effective on June 30, 2003, following the approvals of the Missouri and Iowa Departments of Insurance.

Kansas City Life paid \$59.4 million for GuideOne represented by 2,519,086 shares of all its common stock. The purchase price consisted of \$57.4 million in cash and a \$2 million note payable due on June 30, 2005. Kansas City Life received extra-ordinary dividends of \$55 million and \$22.3 million in 2003 from its wholly owned subsidiaries, Sunset Life and Old American, respectively, as source of funding for the GuideOne acquisition.

Effective October 1, 2003, the assets and liabilities of GuideOne were merged into Kansas City Life, with GuideOne ceasing to exist as a separate legal entity.

